Infrastructure Canada

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BRIEFING NOTE TO THE MINISTER OF INFRASTRUCTURE AND COMMUNITIES

Primer on Canadian Municipal Finances

(For Information)

PURPOSE

- Attached is a primer of key information pulled from public sources to help better understand Canadian municipal financing.

CONTEXT AND KEY FACTS

- Canadian municipalities, particularly the larger ones, have generally been in sound financial positions as a result of prudent financial management practices and provincial requirements to maintain balanced operating budgets.

- Events related to COVID-19 have and will impact municipal revenue generation, which may affect municipal operating budgets and potentially capital budgets.

- The amount of revenue impact is not yet clear, as it will depend on how long the pandemic lasts. While transit fares and related user pricing have been directly hit, these revenues account for a minority of overall revenues.

CONSIDERATIONS

- Municipalities have diversified revenue mix and an ability to borrow from capital markets or provinces to help manage cash flow in year, and use reserves to withstand shocks. They also can borrow long-term for capital projects including infrastructure.

- Provinces and territories have robust oversight and accountability frameworks to manage municipal risk. Should a municipality experience financial difficulties, provinces have a variety of tools to assist, such as grants or loans, adjusting municipal boundaries, taking over functions and, if necessary, taking control of municipal finances.

- The Bank of Canada (the Bank) new lending facilities have been implemented to help provinces and municipalities access short term financing. Many provinces and provincial borrowing authorities for municipalities took advantage in past weeks and

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were successful. Translink, in Vancouver, was also able to issue a bond this week supported by the Bank's new corporate paper facility.

NEXT STEPS

[redacted]

- INFC is also continuing to consult with municipalities, transit authorities, and provinces and territories as well as credit rating agencies and financial intermediaries to become informed of evolving situation.

[redacted]

Kelly Gillis Deputy Minister Infrastructure and Communities	Date

Attachment: Primer on Canadian Municipal Finances

Primer on Canadian Municipal Finances

Legal Structure

Provinces or territories establish municipalities and delegate to them certain authorities, subject to their powers under the constitution. Delegated authorities vary widely across Canada, see Annex A. A few cities, known as Charter Cities (e.g. Toronto, Vancouver, Winnipeg, Montreal, and Saint John), are governed by their own provincial legislation, conferring additional powers and duties. Provinces and territories also set standards for service delivery and oversee municipal activities, including budgeting, finance and borrowing. There are more than 5000 municipalities in Canada, with the five largest by population being Toronto, Montreal, Calgary, Ottawa, and Edmonton, see Annex B. Vancouver is third largest metro area but the city proper is only ranked 8th.

Operations

Operations by municipalities center on delivering local public services in the areas of transportation (roads and public transit), safety (fire and police), environmental health (waters, sewers, solid waste) and recreation and culture. Some provinces and territories have delegated more responsibilities in social and health areas, whereas others have fewer responsibilities. Annually, municipalities establish operating and capital plans for the delivery of these services, which are approved by the province or territory. Per capita spending on municipal services varies widely across Canada and depends largely on the nature of services delegated to municipalities and specific circumstances.

Funding

Revenue: Municipalities are expected to adhere to provincial policy to maintain a balanced operating budget (i.e. no deficit) and fund operations through a number of revenue sources, including:

- Direct taxes (roughly 55%), which are almost exclusively property taxes and tied to property values.
- User fees (20%), relate to the provision of certain user services, such as, public transit, water and sewer, parking and recreation and culture.
- Provincial and federal transfers (12%), come mostly from the home province for specific purposes, such as transportation and environment, Annex C, D. Federal transfers are largely for capital projects and range considerably.
- Other sources (13%) include investment income, licensing and permits, development charges and fines.

Municipalities generally determine their spending needs for the year, and then net out expected fees and transfers, and set property tax regime to make up the difference.

The five largest municipality's operating budgets for 2020 total $28.6 billion, Annex E.

Borrowing: Municipalities are permitted to borrow to fund capital investments and in some cases for cash management purposes during the year. To do so, municipalities have several options:

- Directly issue debt in capital markets. Roughly 15-20 municipalities do so regularly, Annex F.

- Borrow through a regional pooled borrowing authority (e.g. Municipal Finance Authority of British Columbia, Ontario Regional Authorities). These entities borrow directly in capital markets and on-lend funds to local municipalities at lower rates, Annex G.

- Borrow from province or a provincial entity[1] which issue debt in capital markets and also on-lend at lower rates to local municipalities. Increasingly, provinces are funding in capital markets and on-lending to provincial entities to manage with municipalities.

Capital investments and related borrowing must be approved by the province and must be within maximum debt limits set by the province, see Annex H.

Municipalities can only incur long-term debt for capital projects, but can use short-term borrowing to meet within year operating cash flow needs. Cities running operating deficits must pay any year-end balance off with any accumulated surpluses or through the following year's budget. Many municipalities also have reserves for emergencies.

Many municipalities also have accumulated reserves that can be used to cover revenue operating shortfalls, unforeseen expenses and to fund capital projects. Municipalities have wide jurisdiction on how and when to deploy these reserves.

Municipalities can determine how and when to borrow, with major borrowing in the spring and fall and largely in Canadian markets. Municipal borrowings represent 3-5% of the total Canadian bond market, are mostly plain vanilla bullet bonds (with periodic interest payments and principal repaid at maturity) and for periods of ten years or less, and are for infrastructure projects, Annex I.

As a result of their prudent management, municipalities are considered very high quality investments and maintain their own credit rating, see Annex J. Debt issued by municipalities and regional pooled borrowing authorities are not guaranteed by the province, however the debt of provincial entities is. While distinct from the home province, credit rating agencies view municipalities to have a similar risk profile and assign similar ratings, [redacted] Annex K. [redacted]

[1] Alberta Capital Finance Authority, Nova Scotia Municipal Finance Corporation, New Brunswick Municipal Finance Corporation, and Infrastructure Ontario

Municipal Agencies/Corporations

Provinces have given municipalities the authority to establish agencies or corporations to deliver certain services. Depending on their mandate, municipal agencies may charge user fees and generally operate at arm's length or independently, where a Board of Directors supervises the management, and are monitored by and accountable to the municipality.

Notable municipal agencies include transportation authorities such as the Toronto Transit Commission (TTC) or Translink in Vancouver (governed by a number of lower mainland municipalities). Translink appears to be the only municipal agency that issues debt directly in the market.

Accountability

Municipalities are accountable to their home province, and operate within provincial statutes or in the case of Charter Cities their own legislation. Provinces maintain significant control over municipal activity and have robust oversight systems in place to monitor and manage risks.

Should a municipality experience financial difficulties, provinces have a variety of tools to assist, such as lending to municipalities, adjusting municipal boundaries, taking over functions and, if necessary, taking control of municipal finances.

Current Context

Events related to COVID-19 have impacted municipal revenue generation, which may impact both operating and capital budgets. The amount of impact on an annual budget is not yet clear, as it will depend on how long the pandemic lasts. [redacted]

[redacted]

Should a municipality be challenged in meeting its operating budget, home provinces have an in-depth knowledge of the activities and risks and are best placed to assist. Provinces and territories set the parameters for municipal finance and powers, and also provide grants to them.

[redacted]

Provincial bodies and regional pooled finance authorities have been created to help municipalities raise funds. Some entities lend money to municipalities directly for infrastructure or assist in market borrowing.

Finally, the federal government, through the Bank of Canada, provides broad market liquidity measures and have recently announced a variety of measures to help governments to access financial markets and short- and long-term borrowing, which should assist municipalities manage liquidity.

Preliminary Observations

[redacted]

[redacted]

Annex A – Powers Delegated by Province or Territory to Municipalities

TABLE 1 A COMPARISON OF MUNICIPAL AREAS OF RESPONSIBILITY[11]

Municipal Responsibility	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC
General Government Services	X	X	X	X	X	X	X	X	X	X
Courts of Law					X					
Policing & Bylaw Enforcement		X	X	X	X	X	X	X	X	X
Firefighting	X	X	X	X	X	X	X	X	X	X
Regulatory Measures						X				
Roads and Streets	X	X	X	X	X	X	X	X	X	X
Public Transit			X		X	X	X	X	X	X
Hospital Care										X
Preventative Care						X				
Other Health Services						X	X		X	
Social Assistance						X			X	
Other Social Services			X		X	X			X	
Agriculture								X	X	
Tourism / Promotion & Trade / Industry				X	X	X				X
Water Purification and Supply	X	X	X	X	X	X	X	X	X	X
Sewage Collection and Disposal	X	X	X	X	X	X	X	X	X	X
Garbage / Waste Collection & Disposal	X	X	X	X	X	X	X	X	X	X
Recreation & Culture	X	X	X	X	X	X	X	X	X	X
Housing					X	X			X	
Regional Planning & Development	X	X	X	X	X	X	X	X	X	X

Source: An Exploration into the Municipal Capacity to Finance Capital Infrastructure, University of Calgary School of Public Policy, 2015

Annex B – 10 Largest Municipalities in Canada by Population

Rank	Municipality name	Province	Population	
			number	percentage of the Canadian population
1	Toronto	Ontario	2,731,571	7.8
2	Montréal	Quebec	1,704,694	4.8
3	Calgary	Alberta	1,239,220	3.5
4	Ottawa	Ontario	934,243	2.7
5	Edmonton	Alberta	932,546	2.7
6	Mississauga	Ontario	721,599	2.1
7	Winnipeg	Manitoba	705,244	2.0
8	Vancouver (city proper)	British Columbia	631,486	1.8
9	Brampton	Ontario	593,638	1.7
10	Hamilton	Ontario	536,917	1.5

Source: Statistics Canada, 2016 Census

Annex C – Transfers from Other Levels of Government

Municipalities receive transfers from their home province which represent roughly 12 percent of total revenue, and some of this is attributed to federal transfers. Below describes the various ways and mechanisms the federal and provincial governments make transfers to municipalities.

1) From Federal Government to Provinces and Municipalities

To Provinces

The federal government provides significant financial support to provincial and territorial governments on an ongoing basis to assist them in the provision of programs and services, through four main transfer programs:

- the Canada Health Transfer (CHT),
- the Canada Social Transfer (CST),
- Equalization, and
- Territorial Formula Financing (TFF).

The CHT and CST support specific policy areas such as health care, post-secondary education, social assistance, early childhood development and child care.

Equalization and TFF programs provide unconditional transfers to the provinces and territories. Equalization enables less prosperous provincial governments to provide public service levels similar to more prosperous provinces at comparable taxation levels. Equalization incudes equalizing property tax revenues collected by municipalities. The TFF provides additional funding in recognition of the higher cost of providing programs and services in the north. These transfers can be spent at the discretion of the province or territory, including through transfers to municipalities.

The federal government can also provide financial assistance to provinces experiencing exceptional revenue losses under the Fiscal Stabilization Program (FSP). Provinces experiencing a minimum 5 percent year-over-year revenue decline can receive up to a maximum of $60 per person in financial assistance. Beyond the $60 per person limit, provinces can also receive discretionary interest-free loans, recovered over a five-year period. Provinces have discretion on how to deploy financial assistance and loans under the FSP.

To Municipalities

The federal government provides very limited transfers for specific purposes directly to municipalities, such as redistributing gas tax revenues as well as for infrastructure contributions and homelessness grants. These transfers vary considerably by municipality.

2) From Provinces to Municipalities

Provinces provide municipalities with conditional or specific purpose transfers as well as unconditional transfers. Conditional transfers represent roughly 85% of total provincial transfers to municipalities, although this varies considerably by province.

Major conditional transfers are largely for projects and operations relating to transportation (roads and public transit), environment (water, sewers, solid waste) and social services (Ontario only), where the amount is determined by a variety of factors (e.g. population size, required service levels, municipal needs, specific policy or project priorities).

Provinces also seek to equalize tax revenues through unconditional transfers to municipalities, where transfers are spent at the discretion of the municipality. Structures around unconditional transfers vary considerably by province, however amounts are often determined by tax revenue sharing, based on a formula and sometimes on an ad hoc basis.

Source: Department of Finance, Municipal Finance in Canada – Enid Slack, 2007, Provincial-Local Fiscal Transfers in Canada – Enid Slack, 2009

Annex D - Government Transfers for 5 Largest Municipalities

Transfers from Governments 2018 ($ millions)	Toronto	Montreal	Calgary	Ottawa	Edmonton
$ Provincial	$2,480	$1,404	$604	$704	$588
% Provincial	72%	96%	83%	74%	72%
$ Federal	$974	$65	$123	$253	$224
% Federal	28%	4%	17%	26%	28%
Source: 2018 Municipal Annual Reports					

Annex E – 2020 Operating and Capital Budgets for 5 Largest Municipalities

Municipality	Operating	Capital
City of Toronto	$11.6 billion	$27.6 billion over ten years
City of Montreal	$6.17 billion	$6.06 billion over three years
City of Calgary*	$4.09 billion	$5.2 billion over four years
City of Ottawa	$3.76 billion	$813.8 million
City of Edmonton*	$2.98 billion	$4.8 billion over four years
Source: 2020 municipal budget documents		

* 2019

Annex F – Major Municipal Debt Issuers by Province

BRITISH COLUMBIA	SASKATCHEWAN	MANITOBA	ONTARIO	QUEBEC***	NFLD & LABRADOR	NEW BRUNSWICK/ NOVA SCOTIA
▪ MFABC ▪ City of Vancouver ▪ TransLink* ▪ FNFA**	▪ City of Regina ▪ City of Saskatoon	▪ City of Winnipeg	▪ City of Toronto ▪ Region of York ▪ Region of Peel ▪ City of Ottawa ▪ Region of Halton ▪ City of London ▪ Region of Waterloo ▪ Region of Niagara ▪ Region of Durham ▪ City of Guelph ▪ County of Wellington	▪ City of Montreal ▪ Quebec City	▪ City of St. John's	▪ New Brunswick Municipal Financing Corp ▪ Nova Scotia Municipal Finance Corp

* TransLink, formerly known as South Coast British Columbia Transportation Authority, is Metro Vancouver's transportation network. Although TransLink is not a municipality, investors compare TransLink bonds to other similar-rated municipalities

** FNFA, First Nations Finance Authority, is not a municipality but investors will compare FNFA to other similar-rated municipalities

*** This list of Quebec municipalities excludes unrated Quebec municipalities that generally issue serials via an auction process

Source: RBC Debt Capital Market – Canadian Municipalities Primer, 2018

Annex G – Provinces and Territories Where Coordinated Borrowing Available (through Province or Municipal Financing Authorities)

	NL
✓	**PEI***
✓	**NS**
✓	**NB**
	QC
✓	**ON**
	MB
✓	**SK**
✓	**AB**
✓	**BC**
	NU
	YT
	NT

* Special loans available through the treasury board

Examples of Municipal Authorities to support financing

BC Municipal Finance Authority

The MFA pools the borrowing and investment needs of BC communities through a collective structure and is able to provide a range of low cost and flexible financial services to our clients equally, regardless of the size of the community. The MFA is independent from the Province of British Columbia and operates under the governance of a Board of Members appointed from the various Regional Districts within the province.

Alberta Finance Corporation

The Alberta Capital Finance Authority ("ACFA") is a provincial authority and acts only as an agent of the Alberta crown. Its business is to provide local entities with financing for capital projects. ACFA is able to borrow in capital markets at interest rates which would not be available to local authorities acting independently. ACFA makes loans to Alberta municipalities, school boards and other local entities at interest rates based on the cost of its borrowings.

Infrastructure Ontario

Loan Program has helped support more than $16 billion in local infrastructure investments across Ontario. It provides affordable, long-term financing to public sector clients, allowing them to modernize and renew their infrastructure.

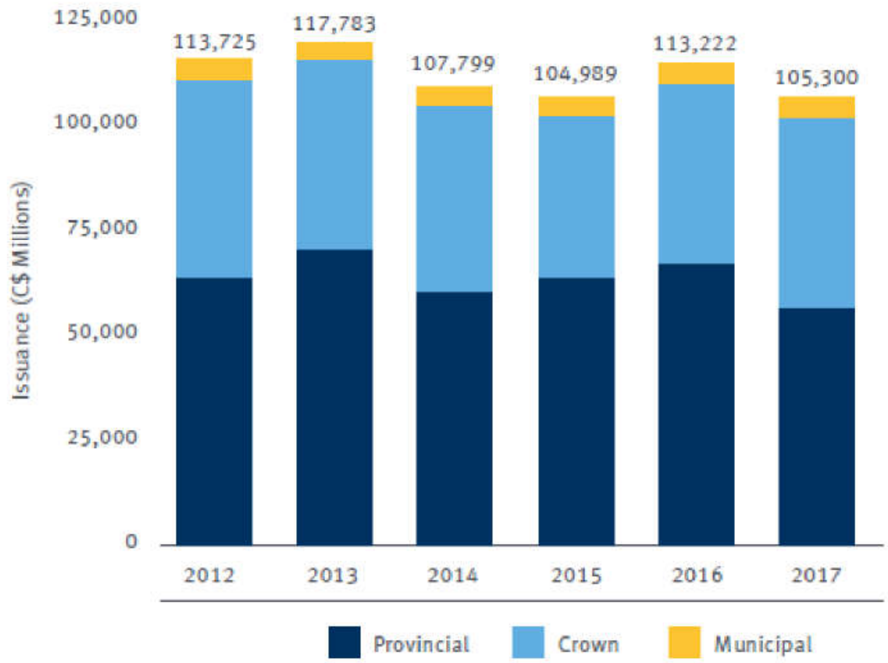
Source: Canadian Union of Public Employees website, BC Municipal Financing Authority website, AB Capital Finance Authority website, Infrastructure Ontario website

Annex H – Restrictions by Provinces on Market Borrowing by Municipalities

Province	Restrictions
Nova Scotia	30% of own source revenues
New Brunswick	2% of assessed real property value
Prince Edward Island	10% of the assessed value of real property
Ontario	Debt service can't exceed 25% of revenue funds
Manitoba	Total debt, max 7% of municipal assessment, annual debt service max 20% annual revenue
Alberta	Debt limit of 2 times revenue, Debt service limit of 35% of revenue
Yukon	3% of current assessed value of all property
Northwest Territories	Debt service must not exceed 20% of the municipalities revenues, for villages the maximum is 10 %

Source: Fiera Capital - Study of the Role of Municipal Bonds in a Canadian Institutional Bond Portfolio, 2018

Annex I – C$ Debt Issuance Composition (Excluding Sovereign Debt)



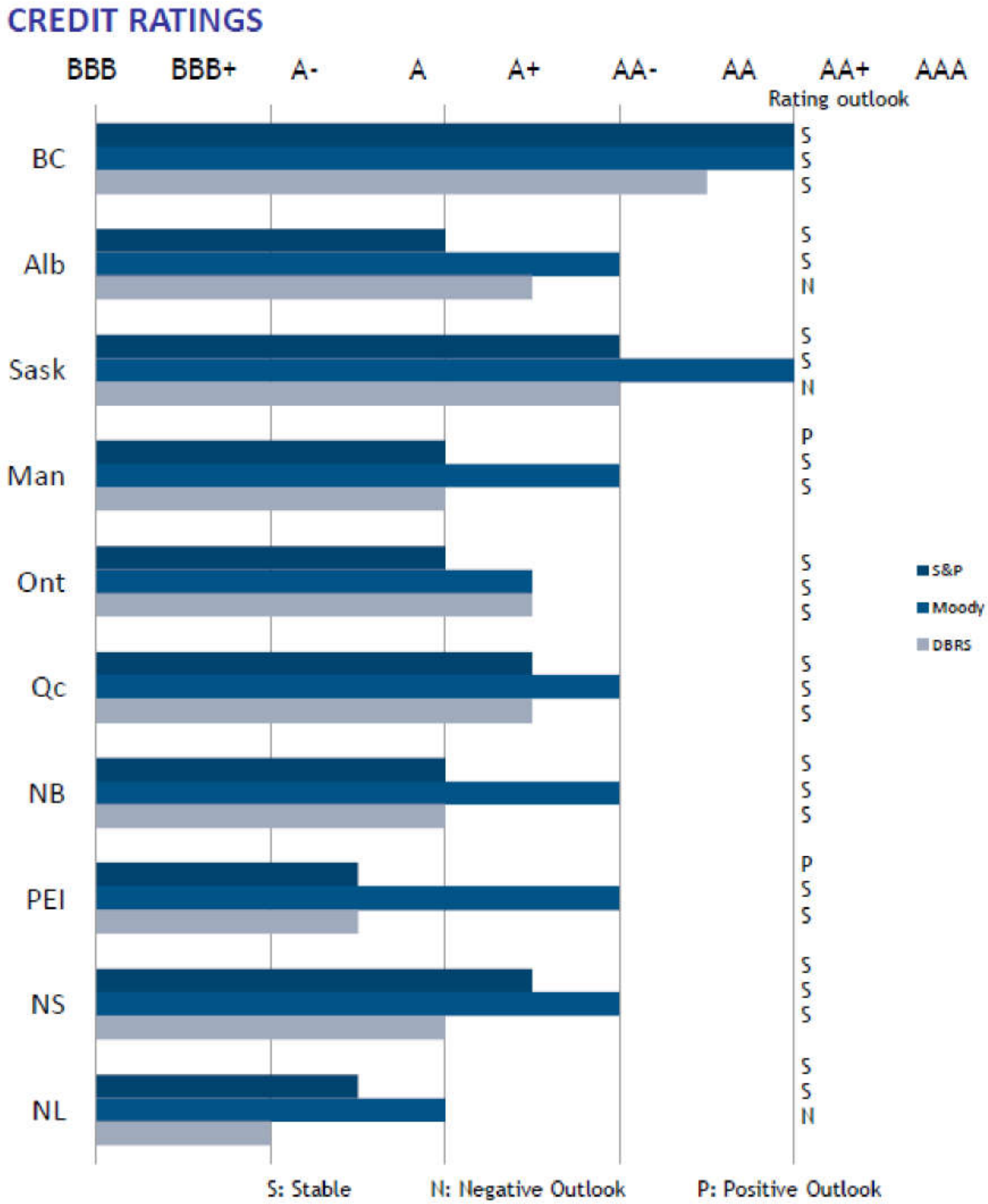
Source: RBC Capital Markets

Annex J – Municipal Credit Ratings Summary

#	Issuer	Province	Debt O/S (C$MM)	DBRS	Outlook	Moody's	Outlook	S&P	Outlook	Fitch
1.	ACFA	AB	1,030	AA	Negative	Aa1	Negative	A+	-	-
2.	City of Guelph	ON	200	-	-	-	-	AA+	Stable	-
3.	City of London	ON	272	-	-	Aaa	Stable	-	-	-
4.	City of Montreal	PQ	7,838	AH	Stable	Aa2	Stable	AA-	Stable	-
5.	City of Ottawa	ON	2,003	-	-	Aaa	Stable	AA	Stable	-
6.	City of Regina	SK	117	-	-	-	-	AA+	Stable	-
7.	City of Saskatoon	SK	97	-	-	-	-	AAA	-	-
8.	City of St. John's	NF	341	-	-	Aa3	Negative	A+	Stable	-
9.	City of Toronto	ON	6,386	AA	Stable	Aa1	Stable	AA	Stable	-
10.	City of Vancouver	BC	990	-	-	Aaa	Stable	AAA	Stable	-
11.	City of Winnipeg	MB	837	-	-	Aa2	Stable	AA	Stable	-
12.	County of Wellington	ON	54	-	-	-	-	AA+	Stable	-
13.	First Nations Finance Authority	BC	377	-	-	A2	Stable	A-	Stable	-
14.	Municipal Finance Authority of BC	BC	8,155	-	-	Aaa	Stable	AAA	Stable	AAA
15.	NBMFC	NB	446	AH	Negative	Aa2	Stable	A+	-	-
16.	NSMFC	NS	65	AH	Stable	-	-	-	-	-
17.	Region of Durham	ON	240	-	-	Aaa	Stable	AAA	Stable	-
18.	Region of Halton	ON	569	-	-	Aaa	Stable	AAA	Stable	-
19.	Region of Niagara	ON	399	-	-	-	-	AA	Stable	-
20.	Region of Peel	ON	1,653	-	-	Aaa	Stable	AAA	Stable	-
21.	Region of Waterloo	ON	753	-	-	Aaa	Stable	-	-	-
22.	Region of York	ON	3,416	-	-	Aaa	Stable	AA+	Stable	-
23.	Translink	BC	1,530	AA	Stable	Aa2	Stable	-	-	-
24.	Quebec City	PQ	1,679	-	-	Aa2	Stable	-	-	-

Source: RBC Debt Capital Market – Canadian Municipalities Primer, 2018

Annex K – Provincial Credit Ratings Summary



Source: Casgrain – Provincial Insider Newsletter, March 2020

Page 19
is withheld
pursuant to paragraphs
14, 18(a) & 21(1)(a)
of the *Access to Information Act*

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La page 19
Font l'objet d'une exception totale
conformément à la disposition du paragraphe
14, 18(a) & 21(1)(a)
de la *loi sur l'accès à l'information*

Pages 20 to 21
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14 & 21(1)(a)
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Annex P Bank of Canada Announces New Program to Support Provincial Funding Markets

Notice - Tuesday, March 24, 2020, 14:30 (ET)

The Bank of Canada today announced a new program to support the liquidity and efficiency of provincial government funding markets. The **Provincial Money Market Purchase (PMMP)** program is an asset purchase facility that will acquire provincially-issued money market securities through the primary issuance market. This program will support a liquid and well-functioning market for short-term provincial borrowing.

Under the PMMP, the Bank will purchase up to 40 percent of each offering of directly-issued provincial money market securities with terms to maturity of 12 months or less. This includes treasury bills and short-term promissory notes of all Canadian provinces. The 40 percent limit may be adjusted if market conditions warrant.

The Bank will make its first purchases under the PMMP on Wednesday, March 25. This facility, combined with the Bank's other recent actions, will provide a material amount of support to provincial funding markets.

The Bank of Canada continues to closely monitor global and domestic market developments and remains committed to providing all the liquidity the financial system needs so that it can continue to serve Canadians during this period of economic stress.

•The **Commercial Paper Purchase Program (CPPP)** supports the flow of credit to the economy by alleviating strains in Canada's commercial paper markets, a key source of short-term financing to support the ongoing needs of a wide range of firms and public authorities. The Canadian commercial paper market is a key source of short-term financing to support the ongoing needs of a wide range of firms and public authorities. The Commercial Paper Purchase Program (CPPP) supports the flow of credit to the economy by alleviating strains in Canada's commercial paper markets. Commercial paper purchases will be conducted by TD Asset Management (TDAM) on behalf of the Bank of Canada.

Any of the following issuers with an outstanding Canadian dollar-denominated commercial paper program:

•Canadian incorporated firms

•**Canadian municipalities**

•Canadian provincial agencies

Eligible issuers should access the program through their dealers.

